



NORTH CAROLINA GENERAL ASSEMBLY  
STATE LEGISLATIVE BUILDING  
16 W. Jones Street  
Raleigh, North Carolina 27601-1030

Charles Davidson, Co-Chair  
Paul Fulton, Co-Chair  
Higher Education Bond Oversight Committee  
Raleigh, NC 27601

May 5, 2010

The Honorable Joe Hackney, Speaker of the House  
The Honorable Senator Basnight, President Pro Tempore

Dear Representative Hackney and Senator Basnight:

The purpose of this letter is to formally request the dissolution of the Higher Education Bond Oversight Committee effective at the end of the calendar year (December 31, 2010). It is the belief of the Committee that, after nearly ten years, we have effectively fulfilled our obligations under the Michael K. Hooker Higher Education Facilities Financing Act.

In addition, the Committee requests an audience with the Joint Commission on Governmental Operations prior to the end of the calendar year in order to present the Committee's Final Report regarding the Michael K. Hooker Higher Education Facilities Financing Act.

During the Session of 1999, the General Assembly passed, and the voters of North Carolina approved, the Michael K. Hooker Higher Education Facilities Financing Act (SB 912, S.L. 2000-3). This Act authorized the issuance of \$3.1 billion to be used for capital improvements at the University of North Carolina and grants to the Community College System for capital improvements. The Act also created the Higher Education Bond Oversight Committee within the General Assembly to help provide appropriate oversight of the implementation of the Act. It is the belief of the Committee that, after nearly ten years, we have effectively fulfilled our obligations under the Act.

Specifically, the Act required the Committee to "analyze whether expenditures of the proceeds from the bonds issued under this act are in compliance with the provisions of this Act" (S.L. 2000-3, Sec. 4(c)2(a)). All bonds related to this Act have now been issued, with the last issuance on March 1, 2007. Furthermore, 99% of program funding at the University of North Carolina, and 95% of program funding in the Community College System has been expended. The

Committee was also required to analyze “Whether the awarded contracts are consistent with the budget and scope of the approved projects” (S.L. 2000-3, Sec. 4(c)2(b)). For the University of North Carolina only 6 projects remain in construction with the remainder (313) either completed or administratively closed. For the Community Colleges only 39 projects remain under construction or awaiting construction, while the remainder (370) are either completed or administratively closed. Third, the Committee was required to analyze “Whether changes in construction methods could enhance cost savings and promotion of on-time completion of projects” (S.L. 2000-3, Sec. 4(c)2(c)). The University of North Carolina and the Community College System, at the Committee’s direction and with the Committee’s review, will prepare a report outlining the “lessons learned” from the implementation of the Act. We intend to submit this report to the General Assembly in 2010. Finally, the Committee was directed to analyze “whether the bond issuances are adequately timed to reflect cash-flow requirements of the projects” (S.L. 2000-3, Sec. 4(c)2(d)). Again, the last bond issuance occurred in March 7, 2007. According to information presented to the Committee, bond issuances were adequate to meet project cash flow needs. The Committee’s Final Report will address the timing of bond issuances with cash flow needs of projects in detail. All information presented above is current as of March 31, 2010.

At the end of the calendar year, the vast majority of projects will be complete and administratively closed. Specifically, at the University of North Carolina the only open project will be at UNC-TV. This project has been affected by the conversion from analog to digital broadcasting and is scheduled to be complete by September 30, 2011. Currently, \$8.9 million of bond proceeds remain unspent for the UNC-TV project. At the end of the calendar year, less than \$5 million will remain unspent. Of the total 409 projects at the Community College System, 26 are currently under construction, eleven are under design, one is soliciting bids, and one land acquisition project is currently inactive. The Community College System expects 26 projects to be completed and closed by the end of the 2010 Fiscal Year; ten projects to be closed by the end of the 2011 Fiscal Year; and, the remaining three projects to be closed by the end of the 2012 Fiscal Year. These projects represent approximately \$30 million in remaining funds. Finally, there is only one pending claim that has yet to be resolved. This claim represents \$966,700 or 0.04% of the UNC bond program.

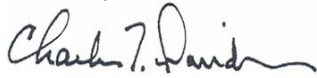
In order to manage and oversee the remaining projects that have yet to be completed or administratively closed, the Committee recommends that the functions outlined under S.L. 2000-3, Sec. 4(c)2 be placed within the Office of State Management and Budget (OSBM) for the Community College System and the University of North Carolina General Administration for the University campuses. The open projects at the Community College System represent a small portion of their total authorized amount of bond funds. The Committee devoted the entirety past meetings on October 5, 2009 and April 14, 2010 to oversight of the remaining projects at the UNC System and the Community Colleges, and is confident that OSBM and UNC-General Administration can provide effective oversight. Furthermore, the Committee is confident that OSBM, in coordination with the Community College System Office, can manage the limited number of projects effectively. In order to ensure appropriate Legislative oversight, we recommend that the respective entities report quarterly to the Joint Commission on Governmental Operations regarding the status of all open projects.

The Committee is also drafting a Final Report that we feel will provide valuable “lessons-learned” from Higher Education Bond program and information for future capital programs in the State. This report will include, but not be limited to: information on the overall program; information on the economic impact of the program; the use of historically underutilized

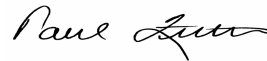
businesses (HUB's); project cash flow management and debt issuances; construction management methods and practices; and the use of centralized project management databases.

On behalf of the Higher Education Bond Oversight Committee, we would like to note that it has been the pleasure of the Chairmen and the Committee to serve the State. However, given the few remaining projects to be completed and the small remainder of funds to be expended, we believe that the Committee is no longer required to ensure effective capital project delivery and request that the Committee be dissolved at the end of the calendar year. Furthermore, we believe that the report that we will submit to the General Assembly will provide valuable insight regarding state construction management and fulfill the Committee's charge. Given the historic nature of the Michael K. Hooker Higher Education Facilities Financing Act, we look forward to presenting the Final Report to the Joint Commission on Governmental Operations. All members of the Higher Education Bond Oversight Committee have read and agreed to the content of this letter.

Sincerely,



Charles Davidson, Co-Chair



Paul Fulton, Co-Chair

CC:

Hon. Kitty Barnes, Higher Education Bond Oversight Committee Member  
Peaches Gunter Blank, Higher Education Bond Oversight Committee Member  
William Long, Higher Education Bond Oversight Committee Member  
Bill Mashburn, Higher Education Bond Oversight Committee Member  
William Smith, Higher Education Bond Oversight Committee Member  
Lt. Gen. William Thurman, Ret., Higher Education Bond Oversight Committee Member  
Mark Bondo, Fiscal Research Division  
Ann Faust, Committee Assistant, Higher Education Bond Oversight Committee